



## **CITY OF SANTA BARBARA**

### **FINANCE COMMITTEE AGENDA REPORT**

**AGENDA DATE:** March 16, 2010  
**TO:** Finance Committee  
**FROM:** Housing and Redevelopment Division, Community Development Department  
**SUBJECT:** Increased Funding For Transition House Affordable Housing Project

**RECOMMENDATION:** That the Finance Committee:

- A. Recommend that the City Council authorize amending a loan agreement with Transition House to increase the loan amount by \$170,000 in federal Home Investment Partnerships Program (HOME) funds for construction of new units on the property and amending certain provisions in the loan agreement related to project financing;
- B. Recommend that the Agency Board approve a loan of \$39,391 for construction of new units on the property as a contingency in the event that Fiscal Year 2010/2011 HOME funds are not awarded in time;
- C. Recommend that the Agency Board approve a loan of \$150,000 to Mom's LP in Redevelopment Agency Housing Set-Aside funds for rehabilitation of existing units on the property; and
- D. Recommend that the above actions be taken subject to the condition that Mom's LP secure low income housing tax credits for the project.

#### **EXECUTIVE SUMMARY:**

The City and Redevelopment Agency have provided three loans and one grant to Transition House over the past 11 years for various improvements to Transition House facilities located at 421 East Cota Street. The most recent loan was approved by Council on July 21, 2009. Since that time, there have been changes to the Transition House proposed financial plan. Transition House reports that it will lose approximately \$2 million in funding previously identified. Half of this decrease is due to a loss of funding from the State's Supportive Housing Program, and the other half is due to reductions in the value of low income housing tax credits expected to be awarded to the project. Transition House has taken a number of steps to compensate for the \$2 million loss of funds and has succeeded in limiting their request for additional funds from the City and Redevelopment Agency to \$320,000.

#### **BACKGROUND:**

For 25 years, Transition House has provided food, shelter and services to homeless families in Santa Barbara. Transition House acquired an old warehouse located at 434 East Ortega in 1992 and converted it to a family homeless shelter with ground-floor

administrative offices and program space. In 1999, the family owners of the former Mom's Restaurant sold their property at a discounted price to Transition House. This property included the Mom's Restaurant building on Cota Street plus an adjacent modern mixed-use building at the corner of Olive and Cota with eight apartments located over ground-floor commercial space (renamed the Cordover Center after the organization's original Executive Director, Jill Cordover).

The Mom's property on Cota Street and the family homeless shelter on Ortega Street are located on the same block and are connected via a driveway (see attached site plan). After acquiring the Mom's property, Transition House was then able to embark on an ambitious plan to develop the properties as one cohesive campus that addresses the needs of homeless families in a comprehensive fashion. Transition House first created new space for offices and its programs and support services by converting the ground floor commercial space in the Cordover Center. This made available the ground-floor space in the family shelter on Ortega and enabled Transition House to devote that building exclusively to shelter use. Transition House renovated the shelter and reconfigured the space to give families more privacy and to increase the number of families served.

Meanwhile, as vacancies arose in the eight apartments on the second floor of the Cordover Center, they were filled with client families that successfully completed Transition House programs and demonstrated readiness for more independent living. As described below, the focus now shifts to the Mom's Restaurant building, which has been leased during the interim to antiques and furniture merchants (Cominiche's).

## **DISCUSSION:**

### Proposed Project

Transition House plans to demolish the Mom's Restaurant building and construct a new two-story mixed-use building with 9,700 square feet that will feature eight new apartments for client families and a 2,000 square foot infant care center and offices on the ground floor. The new building will include an elevator and a bridge connection to the adjacent Cordover Center building. With its location in a flood zone, the site area for the new building will be raised about three feet above grade and will include access ramps. The Cordover Center will also receive a new roof and repairs will be made to the eight existing apartments.

The proposed eight new units in the new building will include six 2-bedroom units with 850-950 square feet and two 3-bedroom units with 1,070 square feet. When combined with the existing eight units, this will result in four 1-bedroom units, ten 2-bedroom units, and two 3-bedroom units. Rents will range from \$437 to \$1,050 per month, depending on size and income targeting. The units will be targeted exclusively to low and very-low income households. Six units will be targeted to households earning 30 percent of the Area Median Income (AMI). Eight units will be targeted to 50 percent AMI, and two units will be targeted to 60 percent AMI.

The City's Staff Hearing Officer and the City's Architectural Board of Review have approved the project and the project's design. Final construction drawings are expected to be completed soon in preparation for securing bids from contractors. Transition

House hopes to secure an award of low income housing tax credits in June and start construction in September.

#### Development Team

In order to be eligible for tax credit financing, Transition House established Mom's L.P., a California limited partnership, which consists of two general partners – Santa Barbara Housing Assistance Corporation and Garden Court, Inc. Both entities serve as general partners in a number of affordable housing projects, including El Carrillo and Garden Court. Transition House will sell the land and existing buildings to Mom's L.P., but will retain the option to purchase the land and buildings back after the first 10 years of the new project's operation.

The Housing Authority will assist Mom's LP in managing construction of the new project, just as it assisted Transition House with the renovation of the Ortega family shelter. Artisan Court, the Housing Authority's new affordable housing project currently under construction, is located directly across the street. The two projects share the same architecture team of Christine Pierron and Mark Wienke.

#### Project Financing

Over the past 11 years, the City and Redevelopment Agency have provided the following financial assistance to the project, listed in chronological order:

RDA loan for acquisition of the property	\$320,000
RDA loan for predevelopment of the new Mom's residential units	120,000
HOME loan for construction of the new Mom's residential units	680,000
CDBG grant for rehabilitation of the existing Cordover units	100,000

Council approved the \$680,000 HOME loan to Transition House on July 21, 2009. As specified in the Council Agenda Report, Transition House prepared a financial plan for the project that was based on their 2009 application for low income housing tax credits. Unfortunately, their application was not selected for award. Competition for this program is extremely steep, and the Mom's Place project was not as prepared to start construction as other competing projects.

Transition House plans to submit a new application for the next round of low income housing tax credits. However, the financial plan was revised considerably due to a \$2,140,822 reduction in expected funding. Part of the funding reduction is due to the loss of a \$1,037,000 loan from the State's Supportive Housing Program. State funds have since been frozen, and it appears the State will not be able to consider new loans for at least three years. The other reduction is the result of the loss of federal stimulus funding which was used last year to augment the value of the tax credits. New tax credits awarded in 2010 will not receive this augmentation benefit, resulting in a loss of \$1,103,822 in the value to Transition House of the anticipated tax credit award.

#### Additional Funds Needed

Fortunately, Transition House has identified ways to cover all but \$320,000 of the \$2,140,822 funding shortfall through cost reductions and identification of other funding sources. Cost reductions were realized through reducing the size of the building in response to input from the City's Architectural Board of Review. Moreover, based on recent bid prices received by the City's Housing Authority for the nearby Artisan Court project, Transition House lowered their estimates accordingly, resulting in further cost reductions.

Transition House succeeded in securing additional permanent financing for the project through a commercial bank loan from Montecito Bank and Trust (MBT) in first security position on title in the amount of \$1,369,000. Critical to Transition House's success in securing the loan is the anticipated award of eight project-based Section 8 units from the City's Housing Authority. Under the Section 8 program, federal funds are used to subsidize the difference between the fair market rent and what tenants can afford to pay. With the guarantee of receiving full fair market rent for these units, the bank is willing to make the loan to Transition House.

For the remaining \$320,000 of the \$2,140,832 shortfall, Transition House requests additional funding from the City and Redevelopment Agency. For the new construction portion of the project, an additional \$170,000 in HOME funds is requested and for the rehabilitation portion of the project, \$150,000 in Redevelopment Agency housing set-aside funds is requested. This would result in a combined subsidy of City and Redevelopment Agency funds that totals \$1,540,000 for the 16 unit project, an amount that is consistent with City funding of other recent affordable housing projects in the City.

The existing HOME loan for construction of the new residential units would then be increased from \$680,000 to \$850,000, and the existing loan agreement would be amended to reflect the new changes in the project's financial plan. A new Redevelopment Agency loan in the amount of \$150,000 would then be dedicated to rehabilitation of the existing units. The proposed HOME loan increase and the proposed new Redevelopment Agency loan would be subject to the condition that Mom's LP secure an award of low income housing tax credits for the project.

The Mom's Place project is located outside of the boundaries of the Central City Redevelopment Project area. The California Redevelopment Law provides that a redevelopment agency may use affordable housing set-aside funds outside a project area if the legislative body makes certain findings regarding use of the funds. On September 16, 2008, the City Council and Agency Board adopted a joint resolution finding that the use of the Agency housing set-aside funds for the Transition House project would be of benefit to the Central City Redevelopment Project area.

#### Subordination of City Covenant

Transition House and the City executed an amended affordability control covenant in 2009 when the Agency made its predevelopment loan. This document sets limits for the income of tenants and the rents to be charged by Transition House. The covenant will be replaced by a new covenant entered into with Mom's LP and covering all sixteen

affordable units. As is standard practice in such cases, the lender (MBT) and perhaps the tax credit investors will require their deeds of trust securing their funding and regulatory agreements be given senior position on title in the unlikely event that the project defaults on repayment or otherwise. These entities may ask the City to subordinate the City's affordability covenant to their deeds of trust.

The City typically agrees to such subordination if the City is afforded the right to cure any default and take over the operation of the project. This means that if the Mom's LP project fails to make payments on the MBT loan, for example, the City will have a chance to pay the past-due amounts to the bank and stop the bank from foreclosing. This would protect the City's investment in this affordable project by assuring continued affordability. If the City did not cure within a limited time, the bank could foreclose and the affordability controls would terminate.

Since Agency housing set-aside funds constitute part of the financing, subordination of the City's affordability covenant is subject to State redevelopment law. California Health and Safety Code Section 33334.14 requires that certain findings be made if affordability restrictions are to be subordinated. The key finding is that no other "economically feasible alternative" source of financing without the condition of subordination is available. That is clearly the case in this instance. State law also requires that the subordination be subject to the right to cure the default and take over the property, thus preserving the affordability restrictions. The current and new affordability covenants will provide the City with this right.

#### **BUDGET/FINANCIAL INFORMATION:**

The City has \$130,609 in federal HOME funds that are specifically earmarked for use by specially designated nonprofits known as Community Development Housing Organizations (CHDOs), and Transition House is one of the City's three nonprofit organizations that meet federal CHDO requirements. Typically, HOME awards for the upcoming year are announced in January or February. However, this year, the City is still awaiting announcement of its Fiscal Year 2010/2011 HOME award. In the unlikely event HOME funds are not awarded by the time they are needed by Transition House, RDA funds would be used to make up the \$39,391 difference needed for the new construction portion of the project.

The Redevelopment Agency has sufficient Housing Set-Aside funds appropriated to cover both the \$150,000 needed for the rehabilitation portion of the project and the \$39,391 possibly needed for the new construction (in the event the HOME funds are not awarded in time).

#### **SUSTAINABILITY IMPACT:**

The new construction portion of the project will feature photovoltaic panels on the roof, tankless water heaters for domestic water, low water consumption plumbing fixtures, and linoleum flooring and other finish materials with recycled content. The new construction has been designed with an interior court to allow for cross ventilation and natural light.

The rehabilitation portion of the project will feature the conversion of single-pane windows to energy-efficient dual-pane windows, energy-efficient lighting fixtures, energy efficient appliances, and flow restrictors for kitchen and bathroom fixtures.

**ATTACHMENTS:**     1.    Letter from Transition House  
                             2.    Site Location Map

**PREPARED BY:**     Brian Bosse, Housing and Redevelopment Manager/SK

**SUBMITTED BY:**   Paul Casey, Community Development Director

**APPROVED BY:**    City Administrator's Office



February 23, 2010

Steven Faulstich, Housing Programs Manager  
City of Santa Barbara  
P. O. Drawer P-P  
Santa Barbara, CA 93102

RE: Mom's Place, Transition House, 421 and 425 E. Cota Street,  
8 New Permanent Apartments for Homeless Families and Child Care

Dear Mr. Faulstich,

Transition House continues to pursue full funding for the Mom's project at 421-425 East Cota Street. Our predevelopment work has continued successfully and we have moved the project forward with staff hearing officer approval in the planning department, design approval from the Architectural Board of Review, and our architects are almost finished with construction drawings. We have benefited greatly from the initial \$120,000 offered to our agency for predevelopment from the City, and appreciate the additional \$680,000 that City has committed for construction. Recently, the City also awarded \$100,000 in CDBG funds to help with the rehabilitation of the existing eight units of housing on the property. The rehabilitation is part of the entire Mom's project.

In 2009 during the project's initial architectural phase, we applied for and were unsuccessful in obtaining an allocation of 9% "competitive" tax credits. We have subsequently met with the staff of the Tax Credit Allocation Committee to review several specific concerns relative to the project that we have now addressed, and we are re-submitting a revised application on March 25, 2010. We are working on that application now. If funded, we would be notified around June 9, and construction could begin on the new building in September, 2010.

Our 2009 application financing plan included a loan of \$1,037,000 from the State of California Housing and Community Development Department's Multifamily Housing Program which we applied for. Available State funds have since been frozen and it is believed that the State will be unable to make the requested loan within the next three years. Additionally, in the 2009 tax credit round, federal

stimulus funding was available to increase the value of tax credits. That opportunity was not extended to 2010. In short, we have also lost \$1,103,822 in available tax credits.

In order to make up this \$2,140,822 shortfall, the commercial portion of the project has done away with a small amount of square footage. Additionally, our construction prices in our current pro forma are lower per square foot than in 2009 based on recent construction bid prices for the Housing Authority's Artisan Court project.

Transition House is also seeking additional help from the City. By way of this letter, Transition House respectfully requests \$170,000 in additional City HOME funding and \$150,000 in City housing rehabilitation funding. This \$320,000 from the City would help greatly in advancing our project.

The final dollars we will need to close the gap will be provided through a commercial bank loan. In order to service this debt, Transition House is in the process of obtaining eight Project-Based Section 8s. The increased rental income we will be able to realize with the Section 8s, along with \$2,500 the new infant care center will pay each month in rent, will to be used to pay this mortgage.

#### **Project Background**

Transition House proposes to build eight new permanent housing apartments for homeless families graduating from its present shelter and transitional housing program. These 8 new units would be situated behind and above a new ground floor with space for licensed childcare for 25 infants. The project also envisions minor rehabilitation and improvement of the existing eight affordable units situated over the administrative offices located at 425 E. Cota Street.

Transition House initiated the project in October, 2007. Since then, a workable architectural plan for a new, two story building reflecting elements of the style of the existing buildings of the old Mom's restaurant has been fully reviewed and approved by the City of Santa Barbara.

The Board of Directors of Transition House and I greatly appreciate the City's consideration of our request for additional funds. We remain committed to developing the property to serve the City's special needs citizens and to making the most of the City's investment, and will continue to explore all avenues available to complete our project.

Please call me if you have any questions or need additional information, 966-9668.

Sincerely,



Kathleen Baushke  
Executive Director



## Transition House Property

